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EXAMINER

ALI, HATEM M

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MAIL DATE

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PAPER

Please find below and/or attached an Office communication concerning this application or proceeding.

The time period for reply, if any, is set in the attached communication.

Office Action Summary	Application No. 10/614,137	Applicant(s) FRIEDMAN ET AL.	
	Examiner HATEM ALI	Art Unit 3692	

-- The MAILING DATE of this communication appears on the cover sheet with the correspondence address --

Period for Reply

A SHORTENED STATUTORY PERIOD FOR REPLY IS SET TO EXPIRE 3 MONTH(S) OR THIRTY (30) DAYS, WHICHEVER IS LONGER, FROM THE MAILING DATE OF THIS COMMUNICATION.

- Extensions of time may be available under the provisions of 37 CFR 1.136(a). In no event, however, may a reply be timely filed after SIX (6) MONTHS from the mailing date of this communication.
- If NO period for reply is specified above, the maximum statutory period will apply and will expire SIX (6) MONTHS from the mailing date of this communication.
- Failure to reply within the set or extended period for reply will, by statute, cause the application to become ABANDONED (35 U.S.C. § 133). Any reply received by the Office later than three months after the mailing date of this communication, even if timely filed, may reduce any earned patent term adjustment. See 37 CFR 1.704(b).

Status

- 1) ☒ Responsive to communication(s) filed on 11 September 2008.
- 2a) ☐ This action is **FINAL**. 2b) ☒ This action is non-final.
- 3) ☐ Since this application is in condition for allowance except for formal matters, prosecution as to the merits is closed in accordance with the practice under *Ex parte Quayle*, 1935 C.D. 11, 453 O.G. 213.

Disposition of Claims

- 4) ☒ Claim(s) 1-31 is/are pending in the application.
- 4a) Of the above claim(s) _____ is/are withdrawn from consideration.
- 5) ☐ Claim(s) _____ is/are allowed.
- 6) ☒ Claim(s) 1-31 is/are rejected.
- 7) ☐ Claim(s) _____ is/are objected to.
- 8) ☐ Claim(s) _____ are subject to restriction and/or election requirement.

Application Papers

- 9) ☐ The specification is objected to by the Examiner.
- 10) ☐ The drawing(s) filed on _____ is/are: a) ☐ accepted or b) ☐ objected to by the Examiner.
Applicant may not request that any objection to the drawing(s) be held in abeyance. See 37 CFR 1.85(a).
Replacement drawing sheet(s) including the correction is required if the drawing(s) is objected to. See 37 CFR 1.121(d).
- 11) ☐ The oath or declaration is objected to by the Examiner. Note the attached Office Action or form PTO-152.

Priority under 35 U.S.C. § 119

- 12) ☐ Acknowledgment is made of a claim for foreign priority under 35 U.S.C. § 119(a)-(d) or (f).
- a) ☐ All b) ☐ Some * c) ☐ None of:
1. ☐ Certified copies of the priority documents have been received.
 2. ☐ Certified copies of the priority documents have been received in Application No. _____.
 3. ☐ Copies of the certified copies of the priority documents have been received in this National Stage application from the International Bureau (PCT Rule 17.2(a)).

* See the attached detailed Office action for a list of the certified copies not received.

Attachment(s)

- | | |
|--|---|
| 1) <input type="checkbox"/> Notice of References Cited (PTO-892) | 4) <input type="checkbox"/> Interview Summary (PTO-413) |
| 2) <input type="checkbox"/> Notice of Draftsperson's Patent Drawing Review (PTO-948) | Paper No(s)/Mail Date. _____ |
| 3) <input type="checkbox"/> Information Disclosure Statement(s) (PTO/SB/08) | 5) <input type="checkbox"/> Notice of Informal Patent Application |
| Paper No(s)/Mail Date _____ | 6) <input type="checkbox"/> Other: _____ |

DETAILED ACTION

Continued Examination Under 37 CFR 1.114

1. A request for continued examination under 37 CFR 1.114, including the fee set forth in 37 CFR 1.17(e), was filed in this application after final rejection. Since this application is eligible for continued examination under 37 CFR 1.114, and the fee set forth in 37 CFR 1.17(e) has been timely paid, the finality of the previous Office action has been withdrawn pursuant to 37 CFR 1.114. Applicant's submission filed on **9/11/08** has been entered.

2. The following is an Office Action in response to a communication receipt on **9/11/08**.

Acknowledgement

The amended **claims 1, 2, 4, 8-11, 17-20, 23-24 and 27-28** and cancellation of **claim 5**, received on **9/11/08** have been entered. As such **claims 1- 4 and 6-31** are pending.

Claim Rejections - 35 USC § 112

3. The following is a quotation of the **second paragraph** of 35 U.S.C. 112:

The specification shall conclude with one or more claims particularly pointing out and distinctly claiming the subject matter which the applicant regards as his invention.

4. **Claims 1-2, 3, 9-11, 17, 19-20, 23-24, and 27-28** are rejected under 35 U.S.C. 112, second paragraph, as being indefinite for failing to particularly point out and distinctly claim the subject matter which applicant regards as the invention.

In the above mentioned **claims**, the recitations, “the **transferable** employee stock option” is not clearly described or found in specification, which render the claims indefinite. It is to be noted that Employee stock options (ESOs) are non-standardized (not transferable), over-the-counter options that are issued as a private contract between the employer and employee. Proper clarification is required.

Claim Rejections - 35 USC § 101

5. **35 U.S.C. 101** reads as follows:

Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title.

6. **Claims 1 - 31** are rejected under 35 U.S.C. § **101** based on Supreme Court precedent, and recent Federal Circuit decisions, a § **101** process must (1) be tied to another statutory class (such as a particular apparatus) or (2) transform underlying subject matter (such as an article or materials) to a different state or thing. *Diamond v. Diehr*, 450 U.S. 175, 184 (1981); *Parker v. Flook*, 437 U.S. 584, 588 n.9 (1978); *Gottschalk v. Benson*, 409 U.S. 63, 70 (1972); *Cochrane v. Denser*, 94 U.S. 780,787-88 (1876). **The process steps in claims (1, 11, 17, 19, 20, and 27)** are not tied to another statutory class nor do they execute a transformation. Thus, they are non-statutory.

7. **Claims 11-16 and 19** are rejected under 35 U.S.C. **103(a)** as being unpatentable on *Rudkin* (2004/0199449).

As per claim 11, *Rudkin* discloses a method for transfer of previously issued and transferable employee stock options, the method comprising:

determining an economic value of a transferable employee stock option(**Abstract**-Transferability), the employee stock option held by an employee, based on an option pricing formula (**para, 0056, 0070, 0078 and 0137- 0140**; via ESO **binominal module 120**, value of the optimal return function and formula);

making the economic value available to the employee holder of the transferable employee stock option; and providing the economic value to the employee holder of the transferable employee stock option in exchange for all rights in the transferable employee stock option, wherein exchange of the transferable employee stock option does not require exercise of the transferable employee stock option (**para 0008 and 0037-0039**; via early exercise decision to maximize the utility of terminal economic wealth).

Rudkin discloses transferability.

Therefore, it would be obvious to an ordinary skill in the art that ESO is transferable (see **Abstract**).

As per claims 12 - 13, *Rudkin* discloses the economic value is a cash value and a number of shares (**para 0137 and 0157 [Fig.2-3]**; via maximize the terminal utility wealth with options implied cash value).

As per claims 14-16, *Rudkin* discloses the step of exchanging occurs periodically within a predetermined window of time and the option pricing formula is selected from the group consisting of Black-Scholes, binomial and trinomial methods

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(para, 0056, 0070, 0078 and 0137- 0140; via ESO binominal module 120, value of the optimal return function and formula).

As per claim 19, Rudkin discloses a method for transfer of previously issued and transferable employee stock options, the method comprising:

determining a cash value of an underwater transferable (**Abstract – Transferability**) employee stock option based on the Black-Scholes option pricing formula (**para 0009**; via value of ESOs by more than 50 percent);

publishing the cash value (**para 0150 and Table E**); and

exchanging the underwater transferable employee stock option for the cash value during a predetermined window of time, wherein exchange of the employee stock option does not require exercise of the transferable employee stock option (**para 0022**; via repricabe ESOs when underwater and **para 0014**; via unlike ETOs, after vesting **ESOs** can be exercised which includes exchange/transfer as implied).

Claim Rejections - 35 USC § 103

8. The following is a quotation of 35 U.S.C. 103(a) which forms the basis for all obviousness rejections set forth in this Office action:

(a) A patent may not be obtained though the invention is not identically disclosed or described as set forth in section 102 of this title, if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains. Patentability shall not be negated by the manner in which the invention was made.

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9. **Claims 1-5 and 17-18** are rejected under 35 U.S.C. 103(a) as being unpatentable over **Rudkin** in view of **Bodurtha** et al(7,212,990).

As per claim 1, Rudkin discloses **a method** for transfer (**abstract**; via transferability) of previously issued and transferable employee stock options, the method comprising:

purchasing all rights to a transferable employee stock option from an employee holding the employee stock option, wherein purchase does not require exercise of the employee stock option (**para, 0025**; via purchasing ESOs [implied with or without exercise] and **para 0016**; via ESOs can be exercised); and

hedging the transferable employee stock option (**para, 0012**; via to exercise for liquidity as employees unable to hedge the risk option).

Rudkin fails explicitly to disclose the step of purchasing all rights to an employee stock option from an employee holding the employee stock option, wherein purchase does not require exercise of the employee stock option

However, **Bodurtha** being in the same field of invention discloses the step of purchasing all rights to an employee stock option from an employee holding the employee stock option, wherein purchase does not require exercise of the employee stock option (**col.3**, lines 9-26 via transfer rights and **col.5**, lines 1-5; via exercises thevoting rights).

Therefore, it would have been obvious to an ordinary skill in the art at the time of invention to modify the features and disclosures mentioned by **Rudkin** to include the

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disclosures as taught by **Bodurtha** in order to facilitate the shareholders to transfer rights in the underlying securities including various option and future markets tied to the Security Receipt.

As per claims 2 - 3, Rudkin discloses further step of determining a value of the transferable employee stock option using an option pricing formula is selected from the group consisting of Black-Scholes, binomial and trinomial methods (**para, 0056, 0070, 0078 and 0137- 0140**; via ESO **binominal module 120**, value of the optimal return function and formula).

As per claims 4, Rudkin discloses an offering and issuing of securities underlying the transferable employee stock option (**para 0007**; via US firms and ESOs).

Claim 5- cancelled.

As per claim 17, Rudkin discloses **a method** for issue of previously issued and transferable employee stock options, the method comprising:

issuing a transferable employee stock option with transfer rights that allow transfer of the stock option to a third party (**para 0016**, line 1-5; via **ESOs** can be exercised [implied and obvious -transfer] any time after the ESO vests and on or before the option's expiration date); and

establishing a beginning date for the transfer rights at a predetermined date following the date of issue of the transferable employee stock option (**para 0014 and 0016**; via ESO can be exercised [implied and obviously include - transfer] only after vested a preset number of years).

Rudkin fails explicitly to disclose that wherein transfer rights of the transferable employee stock option are distinct from exercise rights of the transferable employee stock option, and the transfer rights allow transfer of all rights in the transferable employee stock option to the third party in exchange for value without requiring exercise of the transferable employee stock option.

However, **Bodurtha** being in the same field of invention discloses that wherein transfer rights of the transferable employee stock option are distinct from exercise rights of the transferable employee stock option, and the transfer rights allow transfer of all rights in the transferable employee stock option to the third party in exchange for value without requiring exercise of the transferable employee stock option (**col.3**, lines 9-26 via transfer rights and **col.5**, lines 1-5; via exercises the ...voting rights).

Therefore, it would have been obvious to an ordinary skill in the art at the time of invention to modify the features and disclosures mentioned by **Rudkin** to include the disclosures as taught by **Bodurtha** in order to facilitate the shareholders to transfer rights in the underlying securities including various option and future markets tied to the Security Receipt.

As per claim 18, **Rudkin** discloses the transferable employee stock option includes a vesting date and the beginning date is later than the vesting date (**para 0014**; via ESO can be exercised only after vested a preset number of years).

10. **Claims 6-10** are rejected under 35 U.S.C. 103(a) as being unpatentable over **Rudkin** in view of **Bodurtha** et al (7,212,990) and **Sullivan** et al (2002/0194136).

As per claims 6–7, *Rudkin* fails explicitly to disclose either one time or periodically repeating the purchasing and hedging selected from the group consisting of monthly, quarterly, semi-annually and annually.

However, ***Sullivan*** in the same field of invention teaches a concept of purchasing and hedging employee stock options at any time up to maturity [American Style] (**para 0003 and 0015**; via option and hedging system).

Therefore, it would have been obvious to one of ordinary skill in the art at the time of invention was made to modify the features and disclosures as mentioned by ***Rudkin*** ***ans Bodurtha*** to include the disclosures of timing for the purchasing and hedging of ESOs as taught by ***Sullivan*** in order to match with the timing of option maturity.

As per claims 8-10, *Rudkin* fails explicitly to disclose hedging the employee stock option includes buying and short selling of securities and/or futures contracts and hedging the employee stock option to rebalance the hedge position.

However, ***Sullivan*** in the same field of invention teaches a concept, how financial institutions utilize listed options over the counter (**OTC**) for hedging strategies (**para 0009**).

Therefore it would have been obvious to one ordinary skill in the art at the time of invention was made to modify the disclosure and features mentioned by ***Rudkin*** and ***Bodurtha*** to include the buying- selling options as taught by ***Sullivan*** for hedging strategies in order to facilitate in organizing the hedging position.

11. **Claims 20-26 and 27-31** are rejected under 35 U.S.C. 103(a) as being unpatentable over **Rudkin** in view of **Sullivan** et al (2002/0194136).

As per claim 20, Rudkin discloses a method for hedging previously issued and transferable employee stock options, the method comprising:

exchanging an economic value for all rights in a transferable employee stock option, the economic value based on an option pricing formula, wherein exchange of the transferable employee stock option does not require exercise of the transferable employee stock option; and judging the employee stock option with future (**para, 0056, 0070, 0078 and 0137- 0140**; via ESO binominal module **120**, value of the optimal return function and formula and **para 0014**; via after vesting exercised includes exchange or transfer implied),

Rudkin fails explicitly to disclose a method for hedging the transferable employee stock option with a future.

However, **Sullivan** being in the same field of invention teaches a method for hedging the transferable employee stock option with a future.(**para 0008 and 0009**; via hedging and futures).

Therefore, it would have been obvious to one of the ordinary skill in the art at the time of invention was made to modify the features and disclosures of **Rudkin** to include the disclosures as taught by **Sullivan** in order to hedge the risk of adverse price and market fluctuations.

As per claim 21, Rudkin discloses the step of borrowing, purchasing and selling a1-Delta amount of stock (**para 0006 and 0069**; via ESOs give an employee the right to

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purchase and inherently borrowing-selling for hedging transactions of any incremental amounts like Delta)

As per claim 22, *Rudkin* discloses the step of determining whether it is optimal to early exercise the future (**para 0050**).

As per claim 23, *Rudkin* discloses the step of further determining whether the transferable employee stock option is in the money (**para 0019**; via “in the money”).

As per claim 24, *Rudkin* discloses further exercising the transferable employee stock option (**para 0017**; via ESOs can be exercised any time after the ESOs vested).

As per claims 25-26, *Rudkin* discloses the step of closing out the future position and delivering a prospectus (**para 0050**).

As per claim 27, *Rudkin* discloses a method for hedging previously issued and transferable employee stock options, the method comprising:

exchanging an economic value for all rights in an transferable employee stock option, the economic value based on an option pricing formula, wherein exchange of the transferable employee stock option does not require exercise of the transferable employee stock option (**para, 0056, 0070, 0078 and 0137- 0140**; via ESO binominal module **120**, value of the optimal return function and formula and **para 0014**; via after vesting exercised includes exchange or transfer implied); and

Rudkin fails explicitly to teach hedging the transferable employee stock option with stock.

However, **Sullivan** in the same field of invention discloses exchanging an economic value for an employee stock option, the economic value based on an option pricing formula (**para 0009**).

Therefore, it would have been obvious to one of ordinary skill in the art at the time of invention was made to modify the features and disclosures as taught by **Rudkin** to include the disclosure of **Sullivan** in order to generate additional income.

As per claims 28-29, Rudkin discloses further step of borrowing an amount of stock equal to the amount of the transferable employee stock options received in the exchange and selling a delta amount of stock (**para 0006 and 0069**; via ESOs give an employee the right to purchase and implied borrowing-selling for hedging transactions of any incremental amounts like Delta).

As per claims 30-31 Rudkin discloses the borrowing stock, and purchasing-selling a 1-delta amount of stock, monitoring changes in delta and buying or selling stock based on the changes in delta (**para 0006 and 0069**; via ESOs give an employee the right to purchase and implied borrowing-selling for hedging transactions of any incremental amounts like Delta).

Conclusion

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12. Any inquiry concerning this communication or earlier communications from the examiner should be directed to HATEM ALI whose telephone number is (571)270-3021.

The examiner can normally be reached on 8.00 to 6.00.

If attempts to reach the examiner by telephone are unsuccessful, the examiner's supervisor, Kambiz Abdi can be reached on 571-272-6702. The fax phone number for the organization where this application or proceeding is assigned is 571-273-8300.

Information regarding the status of an application may be obtained from the Patent Application Information Retrieval (PAIR) system. Status information for published applications may be obtained from either Private PAIR or Public PAIR. Status information for unpublished applications is available through Private PAIR only. For more information about the PAIR system, see <http://pair-direct.uspto.gov>. Should you have questions on access to the Private PAIR system, contact the Electronic Business Center (EBC) at 866-217-9197 (toll-free). If you would like assistance from a USPTO Customer Service Representative or access to the automated information system, call 800-786-9199 (IN USA OR CANADA) or 571-272-1000.

/Harish T Dass/
Primary Examiner, Art Unit 3692

Hatem Ali
Examiner
Art Unit 3692